



**Annual Financial Report**

**For the Fiscal Year**

**Ended**

**June 30, 2016**

# PENINSULA HEALTH CARE DISTRICT

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA  
ALEXANDER C HOM, CPA  
ADAM V GUISE, CPA  
TRAVIS J HOLE, CPA

**COMMERCIAL ACCOUNTING & TAX SERVICES**

433 N. CAMDEN DR., SUITE 730  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**GOVERNMENTAL AUDIT SERVICES**

5800 HANNUM AVE., SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
www.mlhcpas.com

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Peninsula Health Care District  
Burlingame, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Peninsula Health Care District (District) as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, effective July 1, 2015, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Applications*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund Budgetary Comparison Schedule, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of Contributions on pages 4-17 and 52-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Peninsula Health Care District's basic financial statements. The Proprietary Fund Budgetary Comparison Schedule and All Funds Budgetary Comparison Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Proprietary Fund Budgetary Comparison Schedule and All Funds Budgetary Comparison Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Proprietary Fund Budgetary Comparison Schedule and All Funds Budgetary Comparison Schedule are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
November 10, 2016

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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As management of the Peninsula Health Care District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and accompanying notes to the basic financial statements.

The Government-Wide Financial Statements present the financial position of the District using the economic resources measurement focus and the accrual basis of accounting. These statements present governmental activities and business-type activities separately. Also, these statements include all assets of the District, as well as all liabilities, including long-term debt.

The Fund Financial Statements include governmental and proprietary funds. The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. A reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach under GASB Statement No. 34. The proprietary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by \$66,752,579. Of this amount, \$4,563,403 is unrestricted net position.
- The District's total net position increased by \$6,355,719.
- The District's current assets increased by \$4,299,410.
- The District's current liabilities increased by \$2,809,526.

### OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District's basic financial statements comprise the Government-Wide Statement of Net Position and Statement of Activities; the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance; and the Proprietary Fund Statement of Net Position, and Statement of Revenues, Expenses, and Changes in Fund Net Position, and Statement of Cash Flows; and the Notes to the Financial Statements. The financial statements also contain required supplementary information related to the net pension liability, as required by GASB Statement No. 68, and a budgetary comparison schedule for the General Fund. In addition, the financial statements include other supplementary information which is comprised of a budgetary comparison schedule for the Leasing Enterprise Fund and a combined budgetary comparison schedule.

#### *Government-Wide Financial Statements*

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector entities. Under the economic resources measurement focus, revenues are recognized when earned and expenses are recorded when the liability is incurred.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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The *Statement of Net Position* reports the District's net position and changes in it. Net position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through lease revenues (business-type activities). The governmental activities of the District include: general government, developing and launching new programs, community grants, and one-time special funding initiatives. The business-type activities of the District include the leasing and property development function of the District.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses Government, Proprietary, and Fiduciary fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The Governmental Fund is used to account for the District's basic services, the Proprietary Fund is used to account for the District's leasing/property activity, and the Fiduciary Fund is used to account for the Peninsula Health Care Development Corporation.

Governmental fund accounting uses a flow of current resources measurement focus and the modified accrual basis of accounting. Modified accrual accounting recognizes revenues when available for current operations, normally those revenues that will be received within 90 days of year end. For the current year, all revenues receivable at year end were collected within the 90-day period resulting in no difference between modified and full accrual in these financial statements. The differences between the governmental fund financial statements and the government-wide financial statements are explained in a reconciliation following the government-wide financial statements.

The Governmental Fund Balance Sheet presents information on the District's assets and liabilities, with the difference between the two reported as fund balance. Over time, increases or decreases in fund balance may serve as a useful indicator of the financial health of the District. To assess the overall health of the District, achievement of the District's mission needs to be considered as well.

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenditures, and Changes in Fund Balance presents the results of the District's operations over the course of the fiscal year and information as to how the fund balance changed over the year. This can be used as an indicator of the extent to which the District has successfully recovered its costs through tax revenues.

Proprietary (Enterprise) fund accounting uses the full accrual basis of accounting. Proprietary funds are reported in the same way in that all activities are reported in the Statement of Net Position and the Statement of Revenues,

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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Expenses, and Change in Net Position. The District's enterprise fund is the same as the business-type activities reported in the government-wide financial statements.

The Proprietary Fund Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes non-cash accounting measures of depreciation or amortization of assets.

### Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found following the financial statements in the audited financial statements.

### Required Supplementary Information

A budgetary comparison schedule for the General Fund is included as required supplementary information following the notes to the basic financial statements. Also included are the required disclosures relating to the District's net pension liability, in accordance with GASB Statement No. 68.

### Other Supplementary Information

A budgetary comparison schedule for the Leasing Fund and a combined budgetary comparison schedule for all funds of the District are included in this report, following the Required Supplementary Information.

### Government-wide Financial Analysis

The government-wide financial statements provide long-term and short-term information about the District's overall financial condition. This analysis addresses the financial statements of the District as a whole.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$66,752,579 at the close of the most recent fiscal year.

32.1% of the District's net position reflects its investment in capital assets (e.g., land, buildings, and improvements other than buildings, equipment, and construction in progress, all net of accumulated depreciation); less any related debt used to acquire those assets that is still outstanding. Although the District's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally will not be used to liquidate these liabilities.

An additional portion of the District's net position (61.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$4,563,403, or 6.8%, may be used to meet the District's ongoing obligations to citizens and creditors.

**PENINSULA HEALTH CARE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**STATEMENT OF NET POSITION**

	6/30/2016	6/30/2015	\$ Increase (Decrease)	% Increase (Decrease)
Current assets	\$ 83,581,575	\$ 79,282,165	\$ 4,299,410	5.4%
Capital assets	25,925,231	22,113,179	3,812,052	17.2%
Other assets	1,977,290	1,204,133	773,157	64.2%
Deferred outflows of resources	38,621	32,019	6,602	20.6%
Total assets and deferred outflows of resources	111,522,717	102,631,496	8,891,221	8.7%
Current liabilities	4,504,606	1,695,080	2,809,526	165.7%
Non-current liabilities	39,525,290	40,416,010	(890,720)	-2.2%
Deferred inflows of resources	740,242	123,546	616,696	499.2%
Total liabilities and deferred inflows of resources	44,770,138	42,234,636	2,535,502	6.0%
Net investment in capital assets	21,423,556	17,552,867	3,870,689	22.1%
Restricted	40,765,620	27,329,533	13,436,087	49.2%
Unrestricted	4,563,403	15,514,460	(10,951,057)	-70.6%
Total net position	\$ 66,752,579	\$ 60,396,860	\$ 6,355,719	10.5%

There were significant changes in cash, capital assets, other assets, current liabilities, and deferred inflows of resources, due to the following activities:

**Total assets and deferred outflows of resources increased \$8,891,221, or 8.7% over the prior fiscal year.**

- Current assets increased \$4,299,410, primarily due to:
  - Increase in cash and investments of \$4,349,839
    - Decrease in Trousdale funds of \$1,864,890
    - Increase in Market value of \$ 708,516
    - Increase in investment account of \$5,454,878
    - Increase in checking accounts \$ 51,337
  - Decrease in prepaid expenses of \$ 2,037
  - Decrease in interest receivable of 48,320
  
- Capital assets increased \$3,812,052 due to:
  - Trousdale construction in progress \$3,710,745
  - Improvements to 1819 Trousdale \$ 189,472
  - Depreciation deduction of \$ 88,171

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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- Other assets increased \$773,157, primarily due to the District's net pension liability in the prior year becoming a net pension asset in the current fiscal year. The calculation of the net pension asset is provided by CalPERS.
- Other - Deferred outflows of resources increased \$6,602, reflecting a slight increase in CalPERS contributions made in fiscal year 15/16 that are considered deferred outflows of resources and will be recognized as a pension expense in fiscal year 16/17.

**Total liabilities and deferred inflows of resources increased \$2,535,502, or 6.0% over the prior fiscal year.**

- Current liabilities increased \$2,809,526, primarily due to:
  - Increase in AP of \$ 468,897
  - Hospital rent paid in advance \$1,796,625
  - Other rents paid in advance \$ 15,101
  - Current portion of WAB loan \$ 525,000
  - Increase in payroll accrued \$ 3,874
- Non-current liabilities decreased \$890,720, primarily due to:
  - Transfer of Current portion of WAB loan \$525,000
  - Decrease in Pension Liability \$376,646
  - Increase in Security deposits \$ 1,926
- Deferred inflows of resources increased \$616,696, as a result of the actuary calculation provided by CalPERS which showed a large change in the proportion of the District's net pension liability, and will be amortized over the next three fiscal years.

**Total net position increased \$6,355,719, or 10.5% over the prior fiscal year.**

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

### STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Total		Total % Change
	2016	2015	2016	2015	2016	2015	
<b>Revenues:</b>							
Program Revenues:							
Charges for Services	\$ -	\$ -	\$ 2,441,975	\$ 2,411,065	\$ 2,441,975	\$ 2,411,065	1.3%
General Revenues:							
Property Taxes	5,899,563	5,443,276			5,899,563	5,443,276	8.4%
Other Revenues	20,516	12,361		10,974	20,516	23,335	-12.1%
Investment Income	782,689	365,940	828,365	137,865	1,611,054	503,805	219.8%
<b>Total Revenues</b>	<b>6,702,768</b>	<b>5,821,577</b>	<b>3,270,340</b>	<b>2,559,904</b>	<b>9,973,108</b>	<b>8,381,481</b>	<b>19.0%</b>
<b>Expenses:</b>							
General Government	772,761	989,731			772,761	989,731	-21.9%
Community Grants	1,906,723	2,002,425			1,906,723	2,002,425	-4.8%
One-time Grants		3,052,910				3,052,910	-100.0%
Leasing			937,905	1,232,024	937,905	1,232,024	-23.9%
<b>Total Expenses</b>	<b>2,679,484</b>	<b>6,045,066</b>	<b>937,905</b>	<b>1,232,024</b>	<b>3,617,389</b>	<b>7,277,090</b>	<b>-50.3%</b>
Transfers	(13,951,379)	789,258	13,951,379	(789,258)			N/A
Change in Net Position	(9,928,095)	565,769	16,283,814	538,622	6,355,719	1,104,391	475.5%
Net Position - Beginning	24,850,706	24,738,637	35,546,154	35,532,634	60,396,860	60,271,271	0.2%
Prior Period Adjustments		(453,700)		(525,102)		(978,802)	N/A
Net Position - Beginning, Restated	24,850,706	24,284,937	35,546,154	35,007,532	60,396,860	59,292,469	1.9%
Net Position - Ending	\$14,922,611	\$24,850,706	\$51,829,968	\$35,546,154	\$66,752,579	\$60,396,860	10.5%

### Governmental Fund Financial Analysis

#### **Balance Sheet**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental fund is to provide information on near-term inflow, outflows and balances of spendable resources. The comments that follow refer to the Government Fund Balance Sheet found on page 20.

As of the end of the current fiscal year, the District's general fund reported an ending fund balance of \$12,278,310, a decrease of \$10,344,518 in comparison with the prior fiscal year. Approximately 38.5% or \$4,733,060 has been assigned for future operations and is available for spending at the District's discretion. \$45,250 of the fund balance is considered nonspendable because it is a prepaid item and the long-term receivable from the Peninsula Health Care Development Corporation. The remainder of the fund balance is restricted to indicate that it is unavailable for new spending because it is restricted as part of the Certificate of Participation's debt covenant (liquidity requirement).

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

### Statement of Revenues, Expenditures, and Changes in Fund Balance

	Fiscal Year Ended 6/30/2016	Fiscal Year Ended 6/30/2015	\$ Increase (Decrease)	% Increase (Decrease)
<b>Revenues</b>				
Tax Revenue	\$ 5,899,563	\$ 5,443,276	\$ 456,287	8.4%
Use of Money and Property	782,689	365,940	416,749	113.9%
Other Revenue	20,516	12,361	8,155	66.0%
<b>Total Revenues</b>	<b>6,702,768</b>	<b>5,821,577</b>	<b>881,191</b>	<b>15.1%</b>
<b>Expenditures</b>				
Administration and Overhead	556,636	488,868	67,768	13.9%
Tax Administration Fee	47,057	41,100	5,957	14.5%
Communications	85,012	113,159	(28,147)	-24.9%
Legal Fees	27,825	47,563	(19,738)	-41.5%
Promotion	88,928	37,830	51,098	135.1%
Election		148,855	(148,855)	-100.0%
Financial Consultant	108,296		108,296	n/a
Other	85,958	93,393	(7,435)	-8.0%
Community Grants	1,906,723	2,002,425	(95,702)	-4.8%
One-time Grants		3,052,910	(3,052,910)	-100.0%
Capital Outlay	189,472	2,700,541	(2,511,069)	-93.0%
<b>Total expenditures</b>	<b>3,095,907</b>	<b>8,726,644</b>	<b>(5,630,737)</b>	<b>-64.5%</b>
Transfers in (out)	(13,951,379)	789,258	(14,740,637)	-1867.7%
Change in fund balance	(10,344,518)	(2,115,809)	(8,228,709)	388.9%
Beginning fund balance	22,622,828	24,738,637	(2,115,809)	-8.6%
<b>Ending fund balance</b>	<b>\$ 12,278,310</b>	<b>\$ 22,622,828</b>	<b>\$(10,344,518)</b>	<b>-45.7%</b>

#### REVENUES:

**Total Revenues increased \$881 thousand, 15.1% over the prior fiscal year.**

**Tax revenues** were up 8.4% due to improvement in San Mateo County assessed property values.

**Use of money and property** was up \$416 thousand, 113.9% due to better returns and unrealized gains in fiscal year 15-16.

**Other Revenue** was up \$8,155, 66.0% due to an increase in RN Tuition Assistance Loan repayments in fiscal year 15-16.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### EXPENDITURES:

#### **Total expenditures decreased \$5.6 million, 64.5% less than the prior fiscal year.**

The areas of **increased expenditures** were in the following categories:

- \$6 thousand in increased tax administration fees charged by the County of San Mateo.
- \$51 thousand for New Program Development which included Healthy Living classes throughout district, YMCA Play in Place Program for childhood obesity, and Stanford consulting services to the development of the new Teen Mental Health Project launched in fiscal year 2017 in partnership with the San Mateo Union High School District.
- \$68 thousand for new Office Coordinator/Property Manager position.
- \$108 thousand for financial consulting related to impact analysis of additional costs to move forward with the assisted living project and then securing additional loan funding.

The areas of **decreased expenditures** were in the following categories:

- \$96 thousand less in Community Grants. This includes \$18 thousand less for RN tuition program because all previously approved multi-year grants were paid off in fiscal year 2015, (The program was suspended due lack of demand for new graduate nurses so no new loans were issued) and \$10 thousand withheld pending acceptable grant use report from one grantee. Mid-year budget revision transferred anticipated unused funds to Discretionary Fund and New Program Development.
- \$2.51 million less in capital outlay due to the purchase of 1819 Trousdale in the prior fiscal year net of the \$189 thousand of tenant improvements to 1819 done in the current fiscal year.
- \$3.05 million less in one-time special funding initiatives. In the prior year there were three major community health investments:
  - \$1.4 million for the Apple Tree San Mateo Center creation and program launching
  - \$1.35 million of the final year of the 3-year Healthy Schools Initiative
  - \$ 300 thousand contributions to the new Kimochi House low income assisted living project
- \$7 thousand less in other expenditures due to a decrease in the audit fee and decrease in travel and meeting expenditures because fewer directors participated in the State association's annual event.
- \$28 thousand less for communications due to a decrease in the production of published outreach educational materials and increase in use of electronic and social media for outreach.
- \$20 thousand less for general legal consultation because prior year included work on lease and financing agreements with Apple Tree Dental for the purpose of establishing a new service with this non-profit partner to serve District residents.
- \$149 thousand less for Board election costs as regular elections fall in November on the even year and no special election was needed.

**The net impact of these increases and decreases resulted in the 64.5% decrease noted above.**

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

### ENTERPRISE FUND FINANCIAL ANALYSIS –

#### Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended 6/30/2016	Fiscal Year Ended 6/30/2015	\$ Increase (Decrease)	% Increase (Decrease)
<b>Operating Revenues</b>				
Lease Income	\$ 2,441,975	\$ 2,411,065	\$ 30,910	1.3%
<b>Total Operating Revenues</b>	<b>2,441,975</b>	<b>2,411,065</b>	<b>30,910</b>	<b>1.3%</b>
<b>Operating Expenses</b>				
Depreciation	70,850	110,160	(39,310)	-35.7%
Legal Fees	51,791	13,489	38,302	283.9%
Rental Expenses	13,902	169,889	(155,987)	-91.8%
Other Property Expenses	801,362	461,278	340,084	73.7%
<b>Total Operating Expenses</b>	<b>937,905</b>	<b>754,816</b>	<b>183,089</b>	<b>24.3%</b>
<b>Non Operating Income (Expense)</b>				
Loss on disposition of capital assets		(477,208)	477,208	-100.0%
Other Non Operating Income		10,974	(10,974)	-100.0%
Interest Earnings	828,365	137,865	690,500	500.9%
<b>Total Non Operating Income (Expense)</b>	<b>828,365</b>	<b>(328,369)</b>	<b>1,156,734</b>	<b>-352.3%</b>
Transfer In (Out)	13,951,379	(789,258)	14,740,637	-1867.7%
Changes in net position	16,283,814	538,622	15,745,192	2923.2%
Beginning net position, restated	35,546,154	35,007,532	538,622	1.5%
<b>Ending net position</b>	<b>\$ 51,829,968</b>	<b>\$ 35,546,154</b>	<b>\$ 16,283,814</b>	<b>45.8%</b>

#### **Net operating Income decreased by \$152,000 due to primarily [Op. revenues minus Op. expenses]**

- Increase in net leasing income from properties of \$187,000
- Increase in cost for planning of the PWC of \$340,000 for Phase II activities of the EIR/CEQA master planning entitlement process for the Peninsula Wellness Community.
- Decrease in depreciation expense of \$39,310
- Increase in legal fees of \$38,300 for real estate legal consulting on rebidding issues related to the assisted living project.

#### **Non-Operating Income**

Total Non-Operating Income increased \$1.157 million due to

- Prior year Loss reflects the building demolition at 1600 Trousdale to prepare for construction.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

- Prior year Non-Operating Income reflects a fee for tenant improvements paid by tenant at 430 El Camino Real (Apple Tree Center)
- Interest Earnings increase of \$691 thousand is a combination of real and unrealized gains on the investment of the construction loan held by the Trustee.

### CAPITAL ASSETS

#### CAPITAL ASSETS, NET OF DEPRECIATION FOR THE FISCAL YEAR ENDED JUNE 30

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Capital Assets not being Depreciated:						
Construction in Progress	\$ -	\$ -	\$ 9,107,845	\$ 5,397,100	\$ 9,107,845	\$ 5,397,100
Land	2,120,000	2,120,000	11,251,399	11,251,399	13,371,399	13,371,399
Depreciable Capital Assets:						
Buildings and Improvements	770,013	580,541	3,646,167	3,646,167	4,416,180	4,226,708
Land Improvements			57,399	57,399	57,399	57,399
Equipment			1,710,776	1,710,776	1,710,776	1,710,776
Less: Accumulated Depreciation	(30,805)	(13,490)	(2,707,563)	(2,636,713)	(2,738,368)	(2,650,203)
<b>TOTAL</b>	<b>\$2,859,208</b>	<b>\$2,687,051</b>	<b>\$23,066,023</b>	<b>\$19,426,128</b>	<b>\$25,925,231</b>	<b>\$22,113,179</b>

**Construction in Progress:** Increased \$3,710,745 as a result of capitalized costs on the 1600 Trousdale project.

**Land:** No change in the current fiscal year.

**Buildings and Improvements:** Increased \$189,472 as a result of capitalized improvement costs at 1819 Trousdale.

**Equipment:** No change in the current fiscal year.

### LONG-TERM DEBT

#### OUTSTANDING DEBT FOR THE FISCAL YEAR ENDED JUNE 30

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Net Pension Liability/(Asset)	\$ (486,714)	\$ 367,646	\$ -	\$ -	\$ (486,714)	\$ 367,646
Certificates of Participation			40,000,000	40,000,000	40,000,000	40,000,000
<b>TOTALS</b>	<b>\$ (486,714)</b>	<b>\$ 367,646</b>	<b>\$ 40,000,000</b>	<b>\$ 40,000,000</b>	<b>\$ 39,513,286</b>	<b>\$ 40,367,646</b>

During the fiscal year 15/16, our net pension liability became a net pension asset, as a result of the annual calculation from CalPERS.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### PERFORMANCE TO BUDGET ANALYSIS

The Budgetary Comparison Schedule for the Consolidated Funds can be found in the Supplementary Section of this report, page 57.

**TOTAL NET INCOME WAS \$2.229 MILLION (60%) OVER BUDGET.**

**Total Revenues were \$2.0 million (25.4%) favorable** due to three primary factors:

- Tax income was \$800 thousand over budget.
- Investment income on Board reserves was \$481 thousand over budget, including \$349 thousand of unrealized gains
- Investment income on the construction loan funds held by Trustee for the year while construction was delayed generated \$716 thousand over budget, including \$360 thousand of unrealized gains
- Other revenue was \$18 thousand over budget due to RN Forgivable Loan program repayments. [If a graduate does not get an RN position within the District, repayment is triggered.]

**Total Expenditures/Expenses, excluding depreciation, were \$165,000 under budget primarily due to:**

- Master Plan costs were under by \$181 thousand because the developer selection process was delayed due to necessitated plan revisions to accommodate changes in the hospital's new helicopter service flight paths.

### **Summary of performance:**

- The overall performance of the operating budget was sound. The significant variances were driven by increased tax revenues, non-recurring investment income on the construction loan during the year long delay in starting the draw down on the loan, unrealized investment gains, and management of controllable operating expenses.

### SUMMARY OF KEY ACCOMPLISHMENTS IN FISCAL YEAR 2016:

- Management and performance of all Board assets
- Restart of assisted living/memory care project after second round of value engineering, financing, and public works bidding process.
- Utilization of rental properties at 100% occupancy for community's health benefit.
- Continued progress in Peninsula Wellness Community development and entitlement process.
- Launching of the Teen Mental Health Project in partnership with the San Mateo Union School District and Stanford.
- Advocacy role in Sacramento seeking Design Build authority for healthcare districts.
- Achieving a clean report and affirmation of the sound financial and operational management of the District from the State Auditor's office.
  - Pursuant to California Government Code Section 8546.10, the State Auditor has authority to assess local government agencies that are perceived to be "at high risk for the potential of waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency or effectiveness".
  - PHCD was identified as a potential risk based on routine State reporting which documented Board reserve levels that seemed higher than warranted given the District did not still own or

## PENINSULA HEALTH CARE DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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- operate a hospital; CEO salary information that seemed high based on State averages vs. local market actuals; and absence of a LAFCo municipal service review in the past nine years.
- After a 9-day onsite assessment in June 2016, the Auditor's Office issued its conclusion:  
**“...the district is funding reasonable and allowable projects; the district's reserve is not excessive, but rather necessary for financial commitments; overall spending is not unreasonable, the district's CEO compensation is comparable to other health care districts; and lastly, although external oversight of the district is weak, this risk is mitigated by the district's transparency...”**

### ECONOMIC OUTLOOK- OPPORTUNITIES and CHALLENGES

#### Opportunities

San Mateo County continues to experience a robust financial environment resulting in escalating home values, a building boon of residential and office space, low unemployment, and more high tech and biotech moving in from all over the world. These forces have increased tax revenues, helped achieve 100% occupancy of District properties, and reaffirmed the community need for the property development projects planned by the District.

The County was successful in passing an increase in sales tax over the next 10 years which has generated, over the first two years of the tax, >\$75 million to the county's general fund. A significant portion of has been made available to the community through a grants process. Many of the organizations currently helped by PHCD have successfully applied for and received 2-years of funding from this new county program.

The implementation of the ACA resulted in County enrollment numbers that exceeded expectations resulting in more than 50,000 residents getting coverage. This reduced the demand for PHCD grant funding for many of the “safety net to the safety net (public health department)” non-profit organizations served by the District's grant program and is projected to continue to help these organizations.

The 2016 Countywide Triennial Community Health Needs Assessment was conducted and published in spring 2016. Results:

- Showed improvements in areas that have been targeted by PHCD (E.g. Healthy Living classes, access to preventative dental care, childhood obesity, and community-based senior services);
- Affirmed the future demand for more supportive senior housing, expanded access to dental care, and teen mental health services—all major PHCD initiatives.
- Informed the Board's health priorities for FY 2017 which guide the grants program and impact metrics.

#### Challenges

**Community Grant Funding:** The recent presidential election will have an impact on the current status of the Affordable Care Act which could increase local service providers' need for funding support at the same period of time when PHCD will need to focus revenues and reserves to carry out promised projects and comply with loan covenants.

**The Trowsdale Assisted Living/Memory Care:** 2015 and 2016 demographic studies of the local senior market reaffirm the rapid aging of this area and the current and future demand for supportive housing such as assisted living. As a result, three senior for-profit housing companies have entered the market and opened facilities.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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[Sunrise, Atria, and Kensington]. This could slow occupancy for the District's facility and prolong the financial stabilization. To recognize this challenge, the pro forma and financial projections were revised before the decision to go forward was determined.

**Peninsula Wellness Community:** Given the building boon, construction costs are high and securing a developer to carry out the Wellness Community as envisioned may be challenging.

**LAFCo Municipal Services Review (MSR):** The last review was conducted in 2008. Over the past year, there has been increasing attention paid to independent special districts at the State level in large part due to the long periods of time that lapsed between their LAFCo reviews. Since LAFCo is the external government entity with oversight responsibilities of all independent special districts, and healthcare districts are uniquely different from the majority of special districts (E.g. Sanitary, Water, Fire, Recreation, etc.), the time between MSR's is even greater, on average, for healthcare districts.

### **BOARD OF DIRECTORS AND STRATEGIC DIRECTION**

Two seats were up in the 2016 election. One incumbent ran and was re-elected; one incumbent did not run. The vacated seat was filled by a long time resident and former city council member who will bring complementary professional skills and experience to the current professional makeup of the Board: an MD, a PhD in community health and business CEO, an RN, and a civil law attorney. The Directors have an average of 30 years of residency in the District's cities.

### **STRATEGIC PLAN**

The Board's 2011-2016 plan set a vision, direction, priorities, goals and objectives that have been carried out since approval. The Board's vision and mission statements were reaffirmed and the strategic goals and priorities were established.

**Vision:** That all residents of the District achieve their optimal health through prevention, education, and access to basic health services.

**Mission:** To ensure Mills-Peninsula Medical Center provides needed core services; to support programs that share our vision, and to do so in collaboration with other providers and qualified members of our community.

**Goals:**

1. Achieve measurable improvements in identified health issues in the District.
2. Improve the availability of and access to health information and services for all residents of the District.
3. Ensure sufficient resources to achieve the Board's vision, mission and strategic initiatives.
4. Maintain a productive partnership with Sutter Health and Mills-Peninsula Health Services to ensure that any new programs, services, and/or facilities developed by either party on the District-owned land will be complimentary to one another and beneficial to the resident of the communities both serve.

### **2016 Health Priorities:**

1. Access to basic health and mental health services
2. Childhood obesity and nutrition
3. Senior services to promote quality of life and independence - outside of institutions
4. Reduction of health risks through education and prevention

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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### **FUTURE CHALLENGES**

As discussed earlier, impact of changes in Affordable Care Act, completing and filling the assisted living/memory care facility; getting the Peninsula Wellness Community entitled; and selecting a developer(s) partner to start the construction.

### **IN SUMMARY**

The District Board and Management provide committed, competent leadership over the real and financial assets of the District while engaging actively with community health partners in identifying health needs, and ensuring that the tax payers' resources go to meeting those needs today and well into the future.

### **FINANCIAL CONTACT**

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact: Peninsula Health Care District, 650-697-6900, 1819 Trousdale Drive, Burlingame, CA 94010.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Net Position**  
**June 30, 2016**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Totals</b>
<b>ASSETS:</b>			
CURRENT ASSETS:			
Cash and investments	\$ 11,952,949	\$ 31,786,607	\$43,739,556
Receivables:			
Interest receivable	219,006	175,298	394,304
Property taxes receivable	97,136		97,136
Rent and tenant receivable		15,622	15,622
Prepaid expenses	21,250	33,092	54,342
Restricted cash and investments		3,000,000	3,000,000
Restricted cash and investments with fiscal agent		36,280,615	36,280,615
	<b>12,290,341</b>	<b>71,291,234</b>	<b>83,581,575</b>
NONCURRENT ASSETS:			
Rent and tenant receivable		1,416,576	1,416,576
Receivable from Peninsula Health Care Development Corporation	24,000		24,000
Deposits receivable		50,000	50,000
Nondepreciable capital assets	2,120,000	20,359,244	22,479,244
Depreciable capital assets, net	739,208	2,706,779	3,445,987
Net pension asset	486,714		486,714
	<b>3,369,922</b>	<b>24,532,599</b>	<b>27,902,521</b>
	<b>15,660,263</b>	<b>95,823,833</b>	<b>111,484,096</b>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension	38,621		38,621
	<b>15,698,884</b>	<b>95,823,833</b>	<b>111,522,717</b>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	15,667	1,180,726	1,196,393
Accrued payroll liabilities	20,364		20,364
Interest payable		651,667	651,667
Unearned revenues		2,111,182	2,111,182
Long-term debt, due within one year		525,000	525,000
	<b>36,031</b>	<b>4,468,575</b>	<b>4,504,606</b>
NONCURRENT LIABILITIES:			
Tenant deposits		50,290	50,290
Long-term debt, due after one year		39,475,000	39,475,000
	<b>36,031</b>	<b>39,525,290</b>	<b>39,525,290</b>
	<b>36,031</b>	<b>43,993,865</b>	<b>44,029,896</b>
DEFERRED INFLOWS OF RESOURCES:			
Pension	740,242		740,242
	<b>776,273</b>	<b>43,993,865</b>	<b>44,770,138</b>
NET POSITION			
Net investment in capital assets	2,859,208	18,564,348	21,423,556
Restricted for:			
Memory Care and Assisted Living Facility Project		30,134,997	30,134,997
Debt service		3,130,623	3,130,623
Debt covenant	7,500,000		7,500,000
Unrestricted	4,563,403		4,563,403
	<b>\$ 14,922,611</b>	<b>\$ 51,829,968</b>	<b>\$66,752,579</b>

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Activities**  
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Operating Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position		Totals
			Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>					
General government	\$ 772,761	\$ -	\$ (772,761)	\$ -	\$ (772,761)
Community grants	1,906,723		(1,906,723)		(1,906,723)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>2,679,484</b>		<b>(2,679,484)</b>		<b>(2,679,484)</b>
<b>Business-type Activities:</b>					
Leasing	937,905	2,441,975		1,504,070	1,504,070
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>937,905</b>	<b>2,441,975</b>		<b>1,504,070</b>	<b>1,504,070</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 3,617,389</b>	<b>\$ 2,441,975</b>	<b>(2,679,484)</b>	<b>1,504,070</b>	<b>(1,175,414)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property taxes			5,899,563		5,899,563
Other revenues			20,516		20,516
Investment income			782,689	828,365	1,611,054
<b>Transfers</b>			<b>(13,951,379)</b>	<b>13,951,379</b>	
<b>Total General Revenues and Transfers</b>			<b>(7,248,611)</b>	<b>14,779,744</b>	<b>7,531,133</b>
<b>Change in Net Position</b>			<b>(9,928,095)</b>	<b>16,283,814</b>	<b>6,355,719</b>
<b>Net Position, July 1, 2015</b>			<b>24,850,706</b>	<b>35,546,154</b>	<b>60,396,860</b>
<b>Net Position, June 30, 2016</b>			<b>\$ 14,922,611</b>	<b>\$ 51,829,968</b>	<b>\$ 66,752,579</b>

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2016**

	<u>General Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and investments	\$ 11,952,949
Receivables:	
Interest receivable	219,006
Property taxes receivable	97,136
Prepaid costs	21,250
<b>TOTAL CURRENT ASSETS</b>	<u>12,290,341</u>
<b>Noncurrent Assets</b>	
Receivable from Peninsula Health Care Development Corporation	<u>24,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 12,314,341</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 15,667
Accrued payroll liabilities	<u>20,364</u>
<b>TOTAL LIABILITIES</b>	<u>36,031</u>
<b>FUND BALANCE</b>	
Nonspendable	45,250
Restricted	7,500,000
Assigned	<u>4,733,060</u>
<b>TOTAL FUND BALANCE</b>	<u>12,278,310</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 12,314,341</u></u>

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT  
Reconciliation of the Governmental Fund  
Balance Sheet to the Statement of Net Position  
June 30, 2016**

<b>TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUND</b>		<b>\$12,278,310</b>
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the governmental funds because of the following:</p>		
<p>Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the governmental funds.</p>		
Capital assets	\$ 2,890,012	
Less: accumulated depreciation	<u>(30,804)</u>	2,859,208
<p>Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.</p>		
District's contributions subsequent to the measurement date	36,629	
Change in assumptions	(18,843)	
Differences between expected and actual experience	1,992	
Change in proportions	(675,440)	
Adjustment due to differences in proportions	(36,513)	
Differences between projected and actual earnings on pension plan investments	<u>(9,446)</u>	(701,621)
<p>Long-term assets and liabilities are not due and payable in the current period and therefore are not reported in the governmental funds' balance sheet:</p>		
Net pension asset		<u>486,714</u>
<b>Net Position of Governmental Activities</b>		<b><u><u>\$14,922,611</u></u></b>

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<b>General Fund</b>
<b>REVENUES:</b>	
Taxes	\$ 5,899,563
Use of money and property	782,689
Other revenue	20,516
<b>TOTAL REVENUES</b>	<b>6,702,768</b>
<b>EXPENDITURES:</b>	
Current:	
General government:	
Administration and overhead	556,636
Tax administration fee	47,057
Communications	85,012
Legal fees	27,825
Promotion	88,928
Financial consultant	108,296
Other	85,958
Community grants	1,906,723
Capital outlay	189,472
<b>TOTAL EXPENDITURES</b>	<b>3,095,907</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,606,861</b>
<b>OTHER FINANCING SOURCES (USES):</b>	
Transfers out	(13,951,379)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(13,951,379)</b>
<b>NET CHANGE IN FUND BALANCE</b>	(10,344,518)
<b>FUND BALANCE, JULY 1, 2015</b>	22,622,828
<b>FUND BALANCE, JUNE 30, 2016</b>	<b>\$ 12,278,310</b>

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance of the Governmental Fund**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measure only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

Net change in fund balance	\$ (10,344,518)
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances	\$ 189,472	
Depreciation expense not reported in governmental funds	<u>(17,315)</u>	
		172,157

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contribution was:

	<u>244,266</u>
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Change in net position of governmental activities	<u><u>\$ (9,928,095)</u></u>
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The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2016**

	<b>Leasing Fund</b>
<b>ASSETS:</b>	
<b>CURRENT ASSETS:</b>	
Cash and investments	\$ 31,786,607
Receivables, net	
Interest receivable	175,298
Rent and tenant receivable	15,622
Prepaid costs	33,092
Restricted cash and investments	3,000,000
Restricted cash and investments with fiscal agent	36,280,615
<b>TOTAL CURRENT ASSETS</b>	<b>71,291,234</b>
<b>NONCURRENT ASSETS:</b>	
Rent and tenant receivable	1,416,576
Deposit receivable	50,000
Non-depreciable capital assets	20,359,244
Depreciable capital assets, net	2,706,779
<b>TOTAL NONCURRENT ASSETS</b>	<b>24,532,599</b>
<b>TOTAL ASSETS</b>	<b>95,823,833</b>
<b>LIABILITIES:</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	1,180,726
Interest payable	651,667
Unearned revenues	2,111,182
Long-term debt, due within one year	525,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,468,575</b>
<b>NONCURRENT LIABILITIES:</b>	
Tenant deposits	50,290
Long-term debt, due after one year	39,475,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>39,525,290</b>
<b>TOTAL LIABILITIES</b>	<b>43,993,865</b>
<b>NET POSITION:</b>	
Net investment in capital assets	18,564,348
Restricted for Memory Care and Assisted Living Facility Project	30,134,997
Restricted for debt service	3,130,623
<b>TOTAL NET POSITION</b>	<b>\$ 51,829,968</b>

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Leasing Fund</b>
<b>OPERATING REVENUES:</b>	
Lease revenue	\$ 2,441,975
<b>TOTAL OPERATING REVENUES</b>	2,441,975
<b>OPERATING EXPENSES:</b>	
Legal fees	51,791
Rental expenses	13,902
Other property expenses	801,362
Depreciation	70,850
<b>TOTAL OPERATING EXPENSES</b>	937,905
<b>OPERATING INCOME (LOSS)</b>	1,504,070
<b>NONOPERATING INCOME (EXPENSE):</b>	
Interest income	828,365
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	828,365
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	2,332,435
<b>TRANSFERS:</b>	
Transfers in	13,951,379
<b>TOTAL TRANSFERS</b>	13,951,379
Change in Net Position	16,283,814
Net Position, July 1, 2015	35,546,154
Net Position, June 30, 2016	\$ 51,829,968

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**

	<u><b>Leasing Fund</b></u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>	
Cash received from tenants	\$ 4,031,010
Cash paid to suppliers for goods and services	<u>54,094</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>4,085,104</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>	
Interest paid on debt	(1,564,000)
Purchase of capital assets	<u>(2,146,745)</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<u>(3,710,745)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers out	<u>(2,700,231)</u>
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(2,700,231)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment management fees	(88,112)
Unrealized gain on cash and cash equivalents	11,404
Purchases of investments, net	(302,540)
Interest received	<u>252,292</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(126,956)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(2,452,828)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FISCAL YEAR</b>	<u>4,085,495</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FISCAL YEAR</b>	<u><u>\$ 1,632,667</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>	
Cash and investments	\$ 31,786,607
Restricted cash and investments	3,000,000
Restricted cash and investments with fiscal agent	<u>36,280,615</u>
TOTAL CASH AND INVESTMENTS	71,067,222
Less: investments that do not meet the definition of cash equivalents	<u>(69,434,555)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 1,632,667</u></u>
	(Continued)

The accompanying notes are an integral part of these basic financial statements.

**PENINSULA HEALTH CARE DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**  
**(Continued)**

	<u><b>Leasing Fund</b></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 1,504,070
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	70,850
(Increase) Decrease in Operating Assets:	
Rent and tenant receivable	(224,636)
Prepaid costs	2,932
Increase (Decrease) in Operating Liabilities:	
Accounts payable	918,217
Unearned revenues	1,811,745
Tenant deposits	1,926
	<u>4,085,104</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><b>\$ 4,085,104</b></u>
<b>Noncash Investing, Capital, and Financing Activities</b>	
Interest capitalized to construction in progress	\$ 1,564,000

The accompanying notes are an integral part of these basic financial statements.



**PENINSULA HEALTH CARE DISTRICT**  
**Fiduciary Fund**  
**Statement of Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Peninsula Health Care Development Corporation</b>
Deductions:	
Administration	\$ 20
Total deductions	20
Change in net position	(20)
Net Position (Deficit) - July 1, 2015	_____
Net Position (Deficit) - June 30, 2016	\$ (20)

The accompanying notes are an integral part of these basic financial statements.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

Peninsula Health Care District (the "District") is a political subdivision of the State of California as defined in the Business and Professions Code, Section 32000. The mission of the District is to ensure Mills-Peninsula Medical Center provides needed core services, to support programs that share their vision, and to do so in collaboration with other providers and qualified members of the community. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for financial reporting.

The District Board will carry out this mission through:

- Preserving Mills-Peninsula Medical Center as a community asset,
- Achieving measurable improvements in identified health problems in the District,
- Improving availability of and access to health information and services for all residents of the district, and
- Ensuring sufficient resources to achieve the Board's vision, mission and strategic initiatives.

#### Blended Component Unit

The Peninsula Health Care District Financing Corporation (Corporation) was established in fiscal year 2013-14 for the purpose of providing assistance to the District in financing the acquisition, construction and improvement of public buildings, works and equipment for the District. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District. The operations of the Corporation are accounted for in the District's proprietary fund.

#### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds-** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

**General Fund-** The General Fund accounts for all financial resources except those required to be accounted for in another fund. It is the operating fund of the District. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Presentation - Fund Accounting (Continued)**

**Proprietary Funds-** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has one enterprise fund:

**Leasing Fund-** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The enterprise fund of the District accounts for the financial transactions related to the property leasing operations of the District.

**Fiduciary Fund-** Fiduciary funds are used to report funds that the District is the trustee or fiduciary for, on behalf of external parties.

**Peninsula Health Care Development Corporation Fund** – This fund is used to account for the activity of the Peninsula Health Care Development Corporation, a non-profit corporation, formed to develop and operate an assisted living and memory care facility for seniors.

#### **Basis of Accounting/Measurement Focus**

**Government-Wide Financial Statements-** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net position should be reported as restricted when constraints placed on net position used are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Fund Financial Statements-** Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Accounting/Measurement Focus (Continued)

**Governmental Funds-** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Proprietary Funds-** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Fund-** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

#### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury and state fund balances for purposes of the statement of cash flows.

#### Investments

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at fiscal year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

#### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The District capitalizes purchases exceeding \$5,000.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets and Depreciation (Continued)

**Governmental Fund Capital Assets-** When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position.

**Proprietary Fund Capital Assets-** Capital assets purchased in the proprietary fund are capitalized.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Lives of Assets</u>
Equipment	3-7
Buildings and Improvements	15-48

#### Restricted Assets

Certain proceeds of the District's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

#### Unearned Revenue

Unearned revenue arises when resources are received by the District before revenues are earned. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized. Unearned Revenue of \$2,111,182 at June 30, 2016 primarily consists of 14 months of prepaid rent for 1501 Trousdale and one month of prepaid rent for 1875 Trousdale, all from Mills Peninsula Health Services (MPHS) as discussed in Note 6.

#### Budgetary Data

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. In the budgetary comparison schedule the original and final budgeted amounts are the same.

#### Property Tax Revenue

The District has the authority to collect taxes on property within its political subdivision. Taxes are received from the County of San Mateo, which has responsibility for their collection. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments due December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of San Mateo bills and collects the taxes for the District. The County of San Mateo remits taxes based on assessed valuations under the Teeter Plan, therefore, taxes receivable, uncollectible, or deferred do not affect the distribution to the District. The County remits all taxes due to the District when due, or within 60 days of year end.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### **Paid Time Off**

It is the District's policy to permit employees to accumulate a limited amount of earned but unused paid time off (PTO), which will be paid to employees upon separation from service, up to a maximum of 45 days after 10 or more years of service. One hundred percent of unused PTO benefits are paid to employees upon termination. The PTO liability balance is included in the accrued payroll liabilities in the financial statements.

#### **Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

#### **New Accounting Pronouncements**

##### *Governmental Accounting Standards Board Statement No. 72*

For the fiscal year ended June 30, 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Applications*. This Statement is effective for periods beginning after June 15, 2015. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. Implementation of GASB Statement No. 72 did have an impact on the District's financial statements for the fiscal year ended June 30, 2016, see Note 2.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not its use is restricted under the terms of District debt instruments or District agreements.

Statement of Net Position:	
Cash and Investments	\$ 43,739,556
Restricted Cash and Investments	3,000,000
Restricted Cash and Investments with fiscal agent	36,280,615
Statement of Fiduciary Net Position:	
Cash and Investments	<u>23,980</u>
Total Cash and Investments	<u>\$ 83,044,151</u>
Cash and Investments as of June 30, 2016 consists of the following:	
Cash in Bank	\$ 514,254
Investments	<u>82,529,897</u>
Total Cash and Investments	<u>\$ 83,044,151</u>

#### **Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. District investments were in the County and State investment pools, Fiduciary Trust, U.S. Bank, Torrey Pines, and City National Bank. The District's policy is to follow the California Government Code.

**Investment in County Treasury** – The District is a voluntary participant in the San Mateo County Investment Pool. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized cost basis provided by the County Treasurer for the entire portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer.

**Investment in the State Investment Pool** – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

#### Policies and Practices (Continued)

**Investment in City National Bank** – The District has invested funds with City National Bank which are used primarily to purchase Treasury bonds, Government guaranteed bonds, U.S. Agency bonds, and other bonds whose ratings range from AAA to A. The investments are recorded at market value.

**Investment in Fiduciary Trust International** – The District has invested funds with Fiduciary Trust International which are used primarily to purchase Treasury bonds, Government guaranteed bonds, U.S. Agency bonds, and other bonds whose ratings range from AAA to A. The investments are recorded at market value.

**Investment in U.S. Bank** – The District has invested funds with U.S. Bank which are used primarily to purchase certificates of deposits. The investments are recorded at market value.

**Investment Torrey Pines** – The District has invested funds with Torrey Pines Bank, a Division of Western Alliance Bank, which are used primarily to purchase certificates of deposits. The investments are recorded at market value.

#### Investments Authorized by the California Government Code and the District’s Investment Policy

The table below identifies the investment types that are authorized for the Peninsula Health Care District (District) by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, and Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commerical Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium- Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
San Mateo County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million
Joint Powers Authority Pools	N/A	None	None

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

#### Investments Authorized by Debt Agreements

Investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issue
Local Agency Bonds, Notes, and Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
Commercial Paper (A or higher)	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Time Deposits	None	None	None
Time Deposits (Unsecured)	None	None	None
Medium Term Notes	5 Years	30%	None
Money Market Funds	N/A	None	None
San Mateo County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Certificates of Deposit	None	None	None

#### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

#### Interest Rate Risk (Continued)

Investment Type	Carrying Amount	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More than 60 Months
State Investment Pool (LAIF)	\$ 2,369,693	\$ 2,369,693	\$ -	\$ -	\$ -	\$ -	\$ -
San Mateo County Pooled Investment Fund	3,252,369	3,252,369					
Money Market Funds	67,956	67,956					
U.S. Treasury Obligations	13,619,992	1,729,101	3,340,597	3,378,531	2,597,809	1,985,191	588,763
U.S. Agency Securities	9,267,421	2,156,852	2,170,326	1,962,176	2,001,785	976,282	
Medium Term Notes	11,572,269	941,673	2,744,788	1,901,583	2,600,572	3,383,653	
Foreign Bonds	960,285					960,285	
Municipal Bonds	2,087,544	475,151		960,649		651,744	
Certificate of Deposit	3,051,753	3,051,753					
Held by Debt Trustees:							
Money Market Funds	1,532,645	1,532,645					
U.S. Agency Securities	9,357,322	2,413,593	1,858,693	1,099,327	2,269,320	1,062,723	653,666
U.S. Treasury Obligations	12,908,770	1,753,112	3,267,167	2,411,056	3,329,386	2,148,049	
Medium Term Notes	10,777,440		1,580,072	2,446,383	2,080,519	4,670,466	
Municipal Bonds	1,704,438	147,601		843,197		713,640	
	<u>\$ 82,529,897</u>	<u>\$ 19,891,499</u>	<u>\$ 14,961,643</u>	<u>\$ 15,002,902</u>	<u>\$ 14,879,391</u>	<u>\$ 16,552,033</u>	<u>\$ 1,242,429</u>

#### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool (LAIF)	\$ 2,369,693	None	\$ -	\$ -	\$ -	\$ -	\$ 2,369,693
San Mateo County Pooled Investment Fund	3,252,369	None					3,252,369
Money Market Funds	67,956	None					67,956
U.S. Treasury Obligations	13,619,992	N/A	13,619,992				
U.S. Agency Securities	9,267,421	None			9,267,421		
Medium Term Notes	11,572,269	None		1,142,997	2,676,269	7,753,003	
Foreign Bonds	960,285	None				960,285	
Municipal Bonds	2,087,544	None		651,744	1,435,800		
Certificate of Deposit	3,051,753	None					3,051,753
Held by Debt Trustees:							
Money Market Funds	1,532,645	None		1,532,645			
U.S. Agency Securities	9,357,322	None		1,152,732	8,204,590		
U.S. Treasury Obligations	12,908,770	N/A	12,908,770				
Medium Term Notes	10,777,440	None		558,355	1,036,467	9,182,618	
Municipal Bonds	1,704,438	None		713,640	990,798		
Total	<u>\$ 82,529,897</u>		<u>\$ 26,528,762</u>	<u>\$ 5,752,113</u>	<u>\$ 23,611,345</u>	<u>\$ 17,895,906</u>	<u>\$ 8,741,771</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

#### Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in one issuer that represents 5% or more of total District investments (other than U.S. Treasury Obligations and U.S. Agency Securities). Federal National Mortgage - \$9,023,366 with various interest rates and maturity dates of 0% to 5.00% and 2/13/17 to 11/25/30, Federal Home Loan Bank - \$4,771,616 with various interest rates and maturity dates of 1.625% to 4.875% and 12/16/16 to 6/14/19, and Federal Home Loan Mortgage Company - \$4,140,713 with various interest rates and maturity dates of 1.0% to 1.375% and 9/29/17 to 5/1/20.

#### Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, \$282,961 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

#### Custodial Credit Risk - Investments

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the San Mateo County Investment Pool).

#### Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

#### Fair Value Measurements

The District has the following recurring fair value measurements as of June 30, 2016:

Investments by fair value	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 67,956	\$ 67,956	\$ -	\$ -
U.S. Treasury Obligations	13,619,992	13,619,992		
U.S. Agency Securities	9,267,421	9,267,421		
Medium Term Notes	11,572,269		11,572,269	
Foreign Bonds	960,285			960,285
Municipal Bonds	2,087,544	2,087,544		
Held by Debt Trustees:				
Money Market Funds	1,532,645	1,532,645		
U.S. Agency Securities	9,357,322	9,357,322		
U.S. Treasury Obligations	12,908,770	12,908,770		
Medium Term Notes	10,777,440		10,777,440	
Municipal Bonds	1,704,438	1,704,438		
	<u>\$ 73,856,082</u>	<u>\$ 50,546,088</u>	<u>\$ 22,349,709</u>	<u>\$ 960,285</u>

The State Investment Pool and San Mateo County Pooled Investment Fund are exempt from classification above.

### NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

Governmental Activities:	Balance at July 1, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
<b>Capital Assets, not being depreciated:</b>					
Land	\$ 2,120,000	\$ -	\$ -	\$ -	\$ 2,120,000
Total Capital Assets, not being depreciated	2,120,000				2,120,000
<b>Capital Assets, being depreciated:</b>					
Buildings and improvements	580,541	189,472			770,013
Total Capital Assets, being depreciated	580,541	189,472			770,013
Less Accumulated Depreciation	(13,490)	(17,315)			(30,805)
Total Capital Assets, being depreciated, net	567,051	172,157			739,208
<b>Total Capital Assets, Net</b>	<u>\$ 2,687,051</u>	<u>\$ 172,157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,859,208</u>

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$17,315 was allocated to general government expense on the statement of activities.

**Business-type Activities:**

<b>Leasing Enterprise Fund</b>	Balance at July 1, 2015	Additions	Deletions	Transfers	Balance at June 30, 2016
<b>Capital Assets, not being depreciated:</b>					
Land	\$ 11,251,399	\$ -	\$ -	\$ -	\$ 11,251,399
Construction in Progress	5,397,100	3,710,745			9,107,845
<b>Total Capital Assets, not being depreciated</b>	<b>16,648,499</b>	<b>3,710,745</b>			<b>20,359,244</b>
<b>Capital Assets, being depreciated:</b>					
Land improvements	57,399				57,399
Buildings and improvements	3,646,167				3,646,167
Equipment	1,710,776				1,710,776
<b>Total Capital Assets, being depreciated</b>	<b>5,414,342</b>				<b>5,414,342</b>
Less Accumulated Depreciation	(2,636,713)	(70,850)			(2,707,563)
<b>Total Capital Assets, being depreciated, net</b>	<b>2,777,629</b>	<b>(70,850)</b>			<b>2,706,779</b>
<b>Total Capital Assets, Net</b>	<b>\$ 19,426,128</b>	<b>\$ 3,639,895</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,066,023</b>

**NOTE 4 - FUND BALANCES AND NET POSITION**

**Net Position**

GASB Statement No. 63 adds the concept of net position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net position is divided into three captions under GASB Statement No. 34 and 63. These captions apply only to net position as determined at the government-wide level, and are described below:

*Net Investment in Capital Assets* describes the portion of net position, which is represented by the current net book value of the City’s capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter.

*Unrestricted* describes the portion of net position which is not restricted as to use.

The Governmental activities net position is restricted by the requirements of the liquidity covenant, as discussed in Note 9, to maintain liquid assets of \$7,500,000. The Enterprise Fund net position is restricted by the requirements of the covenants, discussed in Note 9, to maintain a minimum deposit of \$3,000,000 with an affiliate of Western Alliance Bank. Additional net position is restricted in the amount of \$15,134,997 for construction and other expenses in accordance with the debt agreement with Western Alliance Bank.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 4 - FUND BALANCES AND NET POSITION (CONTINUED)

When both restricted and unrestricted net position are available, restricted resources are depleted first before the unrestricted resources are used.

#### **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (District ordinances).

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance classifications may be redeployed for other purposes with appropriate due process. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### NOTE 5 – LEASE AGREEMENTS

The District transitioned its prior hospital facilities and equipment lease into a Master Agreement with Mills-Peninsula Health Services (MPHS) effective November 1, 2006. This agreement included lease of the hospital facilities, a Construction Ground lease, and rental of additional District land upon which MPHS constructed the new Mills-Peninsula Medical Center and Palo Alto Foundation Clinic. On May 15, 2011 the new hospital was completed and available for use and the 50-year Ground Lease between the District and MPHS became effective.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 5 – LEASE AGREEMENTS (CONTINUED)**

The lease rate for the District land was set on November 1, 2006 at \$1,500,000/year with a CPI adjustment every 3 years over the term of the Ground Lease. Adjustments were made 9/1/2008, 9/1/2011 and 9/1/2104 with the next one due on 9/1/2017. MPHS has an option to extend the Ground Lease for an additional 25-year period.

The District leases four additional buildings to various tenants. 1875 Trousdale is leased under a December 23, 2008 agreement with an initial five (5) year term and three options for one year each. On May 18, 2015, the tenant notified the District that they were exercising the third one year option to extend the lease until February 28, 2017. 430 N. El Camino Real was leased under a November 2014 agreement with a ten (10) year term which expires January 1, 2025, not including one 5-year extension. 1740 Marco Polo is being leased to ten separate parties with various agreement dates and terms. 1720 Marco Polo is being leased to six separate parties with various agreement dates and terms.

Expected base rents through the end of the existing leases are:

<b>Fiscal</b>	<b>1875</b>	<b>1501</b>	<b>430</b>	<b>1740</b>	<b>1720</b>
<b>Year Ended</b>	<b>Trousdale</b>	<b>Trousdale</b>	<b>El Camino</b>	<b>Marco</b>	<b>Marco</b>
<b>June 30,</b>	<b>Trousdale</b>	<b>Trousdale</b>	<b>Real</b>	<b>Polo</b>	<b>Polo</b>
2017	\$ 144,673	\$ 1,796,625	\$ 174,000	\$ 248,940	\$ 79,565
2018	-	1,796,625	174,000	157,574	69,224
2019	-	1,796,625	174,000	99,689	64,090
2020	-	1,796,625	174,000	47,239	40,011
2021	-	1,796,625	174,000	4,689	22,635
2022-2026	-	8,983,125	609,000	-	5,700
2027-2031	-	8,983,125	-	-	-
2032-2036	-	8,983,125	-	-	-
2037-2041	-	8,983,125	-	-	-
2042-2046	-	8,983,125	-	-	-
Thereafter	-	26,724,797	-	-	-

**NOTE 6 - DEFINITIVE AGREEMENTS**

The Definitive Agreements between the District and MPHS became effective on November 1, 2006. Under these agreements, MPHS will construct and equip a new hospital on land leased from the District, and then demolish the existing hospital facility. These agreements also settled litigation initiated in 1997 against MPHS seeking to rescind 1985 lease agreement and related property transfers.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 7 – CONTINGENCIES

Under the Definitive Agreements, the District is obligated as follows:

At the end of the Ground Lease, or upon the District's early termination of the Definitive Agreements (which is only allowed if MPHS commits a "Paramount Default" as defined in Section 5.01.B of the Master Agreement of the Definitive Agreements at any time after MPHS opens the new hospital), the District is obligated to reimburse MPHS for certain items. Depending on the circumstances and timing of the termination of the Ground Lease, these obligations could include the Net Book Value (NBV) all Post Term Assets (certain equipment and hospital building improvements either specifically approved by the District board in the 25-year period prior to lease end, required by law, or necessitated by uninsured damage to the new hospital), and/or the Fair Market Value (FMV) of the use of certain hospital building improvements and equipment for whatever term of the Ground Lease remained as of the date of termination.

#### **Board Reserve for Contingencies**

The Board addressed the contingencies created by the Master Agreement and Construction agreements with MPHS by adopting a Strategic Plan and Finance Policy in December 2007. The Policy established parameters for the annual operating budgets and set annual growth targets for the Board Reserve Fund. In 2012, this Policy was revisited in light of the District's special funding initiatives and property development activities. A revised Strategic Finance Policy was approved in July 2013 that sets out short term and long term indicators to drive operating budgets, program development, and community health investments while maintaining the District's credit-worthiness.

### NOTE 8 – RETIREMENT PLAN

#### **General Information about the Pension Plan**

##### *Plan Description*

All qualified employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a miscellaneous risk pool. Plan assets may be used to pay for benefits for any employer rate plan of the miscellaneous plan. Accordingly, rate plans within the miscellaneous pool is not a separate plan under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous pool. The District sponsors two rate miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

##### *Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### NOTE 8 – RETIREMENT PLAN (CONTINUED)

#### General Information about the Pension Plan (Continued)

The rate plan provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7%	6.50%
Required employer contribution rates	13.189%	6.724%

#### *Contributions*

Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The District's contributions to the Plan for the fiscal year ended was \$32,019.

#### **Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2016, the District reported net a pension asset for its proportionate share of the net position asset/liability of the Plan of \$486,714.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 8 – RETIREMENT PLAN (CONTINUED)

#### Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The District's net pension asset for the Plan is measured as the proportionate share of the net pension asset/liability. The net pension asset/liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension asset/liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension asset/liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.01488%
Proportion - June 30, 2015	-0.01352%
Change - Increase (Decrease)	0.02840%

For the fiscal year ended June 30, 2016, the Local Government recognized pension expense of \$32,019. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 36,629	\$ -
Changes in assumptions		(18,843)
Net differences between expected and actual experience	1,992	
Net differences in actual contribution and proportionate share of contribution		(36,513)
Changes in proportions		(675,440)
Net differences between projected and actual earnings on pension plan investments		(9,446)
Total	<u>\$ 38,621</u>	<u>\$ (740,242)</u>

\$36,629 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	
2017	\$ (267,350)
2018	(267,417)
2019	(215,585)
2020	12,102
Total	<u>\$ (738,250)</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 8 – RETIREMENT PLAN (CONTINUED)

#### Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

##### *Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies (1)
Investment Rate of Return	7.65% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies, 2.75 thereafter

- (1) Depending on age, service, and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The experience study report can be obtained at CalPERS' website under Forms and Publications.

##### *Change of Assumptions*

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

##### *Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 8 – RETIREMENT PLAN (CONTINUED)

#### Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

##### *Discount Rate (Continued)*

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period

##### *Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	(\$269,570)	(\$486,714)	(\$1,025,140)

##### *Pension Plan Fiduciary Net Position*

Detailed information about the Plan's fiduciary net positions is available in the separately issued CalPERS financial reports.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### NOTE 9 – LONG-TERM DEBT

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within one year
<b>Governmental Activities</b>					
Net Pension Liability(Asset)	\$ 367,646	\$ -	\$ (854,360)	\$ (486,714)	\$ -
Total Governmental Activities	\$ 367,646	\$ -	\$ (854,360)	\$ (486,714)	\$ -
<b>Business-type Activities</b>					
Certificates of Participation	\$ 40,000,000	\$ -	\$ -	\$ 40,000,000	\$ 525,000
Total Business-type Activities	\$ 40,000,000	\$ -	\$ -	\$ 40,000,000	\$ 525,000

### Certificates of Participation

During the fiscal year 2013-14, the District entered into a debt agreement with Western Alliance Bank in the amount of \$40,000,000 for the purpose of financing the costs of construction and equipping of a memory care and assisted living facility at 1600 Trousdale Drive, Burlingame, CA.

The District has drawn down \$40,000,000 as of June 30, 2016. The interest rate is 3.91%, with interest payments due every August 1<sup>st</sup> and February 1<sup>st</sup>, commencing August 1, 2014. Principal payments are due every February 1<sup>st</sup>, commencing February 1<sup>st</sup>, 2017.

The remaining debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 525,000	\$ 1,564,000	\$ 2,089,000
2018	1,000,000	1,543,472	2,543,472
2019	1,040,000	1,504,372	2,544,372
2020	1,085,000	1,463,706	2,548,706
2021	1,130,000	1,421,286	2,551,286
2022-2026	6,385,000	6,405,752	12,790,752
2027-2031	7,790,000	5,052,502	12,842,502
2032-2034	21,045,000	2,260,370	23,305,370
Totals	\$ 40,000,000	\$ 21,215,460	\$ 61,215,460

The Certificates of Participation are subject to the following covenants:

- The District is to maintain Liquid Assets in an amount equal to at least \$7,500,000, to be tested semi-annually
- Beginning for the fiscal year ending June 30, 2017 the District's revenues less expenses, plus depreciation, amortization and interest expense shall equal at least 1.2 times total debt service for such fiscal year
- The District shall not issue any additional obligations unless the District's revenues less expenses, plus depreciation, amortization and interest expense shall be at least 1.25 times total debt service following such issuance for each fiscal year
- The District will deposit and maintain deposited, during the term of this agreement, with an affiliate of Western Alliance Bank, a minimum amount of \$3,000,000

No covenant violations have occurred for the fiscal year ended June 30, 2016.

# **PENINSULA HEALTH CARE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016**

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### **NOTE 10 – RESTRICTED GRANTS AND LOANS**

As part of the District’s mission to promote the healthcare interests of the communities it serves, the District has loaned money to nursing students and physicians within the district. The loans are subject to repayment if certain agreed upon requirements are not met.

These payments are recorded as grant expenditures. If a student or physician does not fulfill their obligation then all or part of the payment (based on the agreed upon schedules) is recognized as a loan receivable with a related recognition of revenue. During the fiscal year ended June 30, 2016, the District received \$19,721 in loan repayment revenue.

On May 24, 2014 the Board approved a motion to indefinitely suspend both the RN loan forgiveness program and the MD recruitment program.

**Required Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

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Prepared for Peninsula Health Care District, a Cost Sharing Defined Benefit Pension Plan

As of June 30, 2016

**Schedule of the District's Proportionate Share of the Net Pension Liability – Last 10 Years\***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Proportion of the net pension liability/asset	-0.01352%	0.01488%
Proportionate share of the net pension liability/asset	\$ 486,714	\$ 367,646
Covered-employee payroll	\$ 270,104	\$ 208,190
Proportionate Share of the net pension liability/asset as a percentage of covered-employee payroll	180.20%	176.59%
Plan's fiduciary net position	\$ 13,948,836,204	\$ 10,639,461,174
Plan's total pension liability	\$ 17,648,059,055	\$ 13,110,948,452
Plan fiduciary net position as a percentage of total pension liability/asset	79.04%	81.15%

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***Notes to Schedule***

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

**\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only two years are shown.**

**PENINSULA HEALTH CARE DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

Prepared for Peninsula Health Care District, a Cost Sharing Defined Benefit Pension Plan  
As of June 30, 2016

Schedule of Contributions – Last 10 Years\*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractual required contribution (actuarially determined)	\$ 80,628	\$ 31,075
Contributions in relation to the actuarially determined contributions	<u>(36,629)</u>	<u>(32,019)</u>
Contribution deficiency (excess)	<u>\$ 43,999</u>	<u>\$ (944)</u>
Covered-employee payroll	332,610	270,104
Contributions as a percentage of covered-employee payroll	24.24%	11.50%

*Notes to Schedule*

Valuation Date: June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Investment Rate of Return	7.65%, net of pension plan investment and administrative Expenses; includes Inflation
Mortality Rate Table <sup>(1)</sup>	Derived using CalPERS' Membership Data for all Funds

<sup>(1)</sup>The mortality table was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only two years are shown.

**PENINSULA HEALTH CARE DISTRICT**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<b>General Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budget Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
Taxes	\$ 5,100,000	\$ 5,100,000	\$ 5,899,563	\$ 799,563
Use of money and property	301,250	301,250	782,689	481,439
Other revenue	3,000	3,000	20,516	17,516
<b>TOTAL REVENUES</b>	<b>5,404,250</b>	<b>5,404,250</b>	<b>6,702,768</b>	<b>1,298,518</b>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Administration and overhead	550,000	550,000	556,636	(6,636)
Tax administration fee	42,000	42,000	47,057	(5,057)
Communications	95,000	95,000	85,012	9,988
Legal fees	50,000	50,000	27,825	22,175
Promotion	263,000	263,000	88,928	174,072
Financial consultant	108,300	108,300	108,296	4
Other	96,100	96,100	85,958	10,142
Community Grants	1,912,000	1,912,000	1,906,723	5,277
Capital outlay			189,472	(189,472)
<b>TOTAL EXPENDITURES</b>	<b>3,116,400</b>	<b>3,116,400</b>	<b>3,095,907</b>	<b>20,493</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,287,850</b>	<b>2,287,850</b>	<b>3,606,861</b>	<b>1,319,011</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out			(13,951,379)	(13,951,379)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			<b>(13,951,379)</b>	<b>(13,951,379)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,287,850</b>	<b>2,287,850</b>	<b>(10,344,518)</b>	<b>(12,632,368)</b>
<b>FUND BALANCE, JULY 1, 2015</b>	<b>22,622,828</b>	<b>22,622,828</b>	<b>22,622,828</b>	
<b>FUND BALANCE, JUNE 30, 2016</b>	<b>\$ 24,910,678</b>	<b>\$ 24,910,678</b>	<b>\$ 12,278,310</b>	<b>\$ (12,632,368)</b>

## **Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**  
**Schedule of Revenues, Expenses, and Changes in Net Position**  
**Budget and Actual - Enterprise Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Leasing Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Budget Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>		
<b>OPERATING REVENUES:</b>				
Lease revenue	\$ 2,436,635	\$ 2,436,635	\$ 2,441,975	\$ 5,340
<b>TOTAL OPERATING REVENUES</b>	<u>2,436,635</u>	<u>2,436,635</u>	<u>2,441,975</u>	<u>5,340</u>
<b>OPERATING EXPENSES:</b>				
Legal fees	10,000	10,000	51,791	(41,791)
Rental expenses	19,200	19,200	13,902	5,298
Other property expenses	982,000	982,000	801,362	180,638
Depreciation	115,000	115,000	70,850	44,150
<b>TOTAL OPERATING EXPENSES</b>	<u>1,126,200</u>	<u>1,126,200</u>	<u>937,905</u>	<u>188,295</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,310,435</u>	<u>1,310,435</u>	<u>1,504,070</u>	<u>193,635</u>
<b>NONOPERATING INCOME (EXPENSE):</b>				
Interest income	112,500	112,500	828,365	715,865
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	<u>112,500</u>	<u>112,500</u>	<u>828,365</u>	<u>715,865</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>1,422,935</u>	<u>1,422,935</u>	<u>2,332,435</u>	<u>909,500</u>
<b>TRANSFERS:</b>				
Transfers in			13,951,379	13,951,379
<b>TOTAL TRANSFERS</b>			<u>13,951,379</u>	<u>13,951,379</u>
<b>CHANGES IN NET POSITION</b>	1,422,935	1,422,935	16,283,814	14,860,879
<b>NET POSITION, JULY 1, 2015</b>	<u>35,546,154</u>	<u>35,546,154</u>	<u>35,546,154</u>	
<b>NET POSITION, JUNE 30, 2016</b>	<u>\$ 36,969,089</u>	<u>\$ 36,969,089</u>	<u>\$ 51,829,968</u>	<u>\$ 14,860,879</u>

**PENINSULA HEALTH CARE DISTRICT**  
**Budgetary Comparison Schedule**  
**Budget and Actual - All Funds**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Budget Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
Taxes	\$ 5,100,000	\$ 5,100,000	\$ 5,899,563	\$ 799,563
Use of money and property	301,250	301,250	782,689	481,439
Lease revenue	2,436,635	2,436,635	2,441,975	5,340
Other revenue	3,000	3,000	20,516	17,516
<b>TOTAL REVENUES</b>	<b>7,840,885</b>	<b>7,840,885</b>	<b>9,144,743</b>	<b>1,303,858</b>
<b>EXPENDITURES/EXPENSES:</b>				
Current:				
General Government:				
Administration and overhead	550,000	550,000	556,636	(6,636)
Tax administration fee	42,000	42,000	47,057	(5,057)
Communications	95,000	95,000	85,012	9,988
Legal Fees	50,000	50,000	27,825	22,175
Promotion	263,000	263,000	88,928	174,072
Financial consultant	108,300	108,300	108,296	4
Other	96,100	96,100	85,958	10,142
Community Grants	1,912,000	1,912,000	1,906,723	5,277
Capital outlay			189,472	(189,472)
Legal fees	10,000	10,000	51,791	(41,791)
Rental expenses	19,200	19,200	13,902	5,298
Other property expenses	982,000	982,000	801,362	180,638
Depreciation	115,000	115,000	70,850	44,150
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>4,242,600</b>	<b>4,242,600</b>	<b>4,033,812</b>	<b>208,788</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>3,598,285</b>	<b>3,598,285</b>	<b>5,110,931</b>	<b>1,512,646</b>
<b>NONOPERATING INCOME (EXPENSE)</b>				
Interest income	112,500	112,500	828,365	715,865
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	<b>112,500</b>	<b>112,500</b>	<b>828,365</b>	<b>715,865</b>
<b>NET CHANGE IN FUND BALANCE/NET POSITION</b>	<b>3,710,785</b>	<b>3,710,785</b>	<b>5,939,296</b>	<b>2,228,511</b>
<b>FUND BALANCE/NET POSITION, JULY 1, 2015</b>	<b>58,168,982</b>	<b>58,168,982</b>	<b>58,168,982</b>	
<b>FUND BALANCE/NET POSITION, JUNE 30, 2016</b>	<b>\$ 61,879,767</b>	<b>\$ 61,879,767</b>	<b>\$ 64,108,278</b>	<b>\$ 2,228,511</b>